

Message Text

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DEPARTMENT OF TREASURY WASHDC IMMEDIATE

C O N F I D E N T I A L ROME 9946

LIMDIS GREENBACK

PASS SECRETARY SIMON AND PARTY

AMEMBASSY JIDDA - ZFF-5 ONLY

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: TALK WITH OSSOLA CONCERNING ITALIAN ECONOMIC STABIL-
IZATION PROGRAM AND VISIT OF SECRETARY SIMON

REF: ROME 9842 DATED JULY 71, 1974

1. SUMMARY. AT LUNCHEON ON JULY 18, RINALDO OSSOLA,
VICE DIRECTOR GENERAL OF BANK OF ITALY, DISCUSSED
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NUMBER OF ECONOMIC TOPICS OF CURRENT INTEREST TO

ITALY AND INTERNATIONAL FINANCIAL COMMUNITY. HE DENIED THAT GOVERNOR CARLI INTENDED TO RESIGN FROM BOI AS REPORTED IN PRESS JUNE 17 AND 18. WE BRIEFLY REVIEWED EVENTS AT EC COUNCIL (FINANCE) MEETING JULY 15 IN BRUSSELS. NOTING THAT OVER PAST THIRTY DAYS BALANCE OF PAYMENTS PERFORMANCE HAD COMPARATIVELY IMPROVED, HE SAID THAT BOI HAD NET RECEIPTS OF \$400 MILLION DURING PERIOD FROM MID-JUNE THROUGH JULY 17. IN COMMENTING ON PROSPECTS FOR APPROVAL OF TAX PACKAGE PORTION OF ECONOMIC STABILIZATION PROGRAM BY PARLIAMENT, OSSOLA EXPRESSED SOME SYMPATHY FOR CERTAIN AMENDMENTS PROPOSED BY OPPOSITION PARTIES BUT EXPRESSED CONCERN THAT GOVERNMENT PROGRAM MIGHT COME UNSTUCK IF SUBJECTED TO EXCESSIVE CHANGES. CONCERNING PROSPECTIVE VISIT BY SECRETARY SIMON ON JULY 23, HE INDICATED THAT GOI ATTITUDE WOULD LIKELY BE SIMILAR TO LINE TAKEN BY CARLI IN JUNE MEETING WITH SECRETARY IN WASHINGTON. THAT IS, UNTIL GOI SUCCEEDS IN SUCCESSFULLY IMPLEMENTING STABILIZATION PROGRAM, ITALY WILL NOT REQUEST FOREIGN FINANCIAL ASSISTANCE. OSSOLA COMMENTED THAT REPRESENTATIVES OF SIX MEMBER COUNTRIES OF GROUP OF 10 WOULD BE MEETING IN LONDON ON JULY 24 AND WELCOMED CONFIRMATION THAT UNDER SECRETARY BENNETT WOULD BE IN LONDON AT THAT TIME. END SUMMARY.

2. DURING JULY 18 LUNCHEON WITH ASST TREAS ATT AND ECONOMIC COMMERCIAL MINISTER, RINALDO OSSOLA TERMED PRESS REPORTS OF GOVERNOR CARLI'S RESIGNATION AS UNFOUNDED (REFTEL). HE OBSERVED THAT IT WAS HIGHLY UNLIKELY SHAH OF IRAN WOULD OFFER JOB TO CARLI FOR DIRECTORSHIP OF INTERNATIONAL FINANCIAL ORGANIZATION CHARGED WITH RE-CYCLING PETRODOLLARS, SINCE SHAH DID NOT HAVE SURPLUSES LIKE SAUDIS BUT TENDED TO SPEND HIS OIL DOLLARS. OSSOLA ALSO NOTED THAT PERIODICALLY DURING PAST SEVEN YEARS, CARLI HAD EXPRESSED DESIRE TO STEP DOWN AND GIVE OTHERS A CHANCE AT DIRECTING BANK. THESE SENTIMENTS HAD NOT YET MOTIVATED HIM TO RESIGN, AND GIVEN PRESENT CRUCIAL ECONOMIC SITUATION IN ITALY, IT WAS UNLIKELY HE WOULD ABANDON GOVERNORSHIP. CONTRARY TO USUAL NERVOUS EXCHANGE MARKET REACTION TO PERIODIC RUMORS OF CARLI'S

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RESIGNATION, OSSOLA SAID THAT MARKET WAS QUIET ON JULY 17 AND BANK ACTUALLY TOOK IN \$50 MILLION. IN FACT, BALANCE OF PAYMENTS PERFORMANCE OVER PAST THIRTY DAYS HAD BEEN COMPARATIVELY ENCOURAGING. FROM MID-JUNE THROUGH JULY 17, BOI HAD ACTUALLY HAD NET RECEIPTS OF OVER \$400 MILLION.

3. IN REVIEW OF DISCUSSIONS CONCERNING EC LOAN OPERATION

AT JULY 15 FINANCE MINISTERS MEETING WHICH HE ATTENDED, HE INDICATED THAT ITALY HAD NEITHER PRESSED FOR ACCEPTANCE OF COMMISSION PROPOSAL BY COUNCIL NOR EXPERIENCED ANY REAL DISAPPOINTMENT AT POSTPONEMENT OF FURTHER DISCUSSION UNTIL SEPTEMBER.

4. WHEN ASKED FOR HIS VIEW ON PROSPECTS FOR PARLIAMENTARY APPROVAL OF GOI FISCAL PACKAGE, OSSOLA EXPRESSED SYMPATHY FOR COMMUNIST PROPOSAL THAT ADDITIONAL TAXES BE LEVIED ON PERSONAL INCOME OF HIGHER INCOME EARNERS (THOSE EARNING MORE THAN 4 MILLION LIRE PER YEAR). AT SAME TIME, HE WAS CONCERNED THAT POLITICAL INFIGHTING, UNWILLINGNESS TO COMPROMISE, AND EXCESSIVE AMENDMENTS MIGHT CAUSE TAX PROGRAM TO COME UNSTUCK, WHICH WOULD PRECIPITATE NEW CRISIS. HE MADE IT QUITE CLEAR THAT ALTHOUGH THERE WERE DOUBTS ABOUT TAX SIDE OF STABILIZATION PROGRAM, BANK OF ITALY HAD CREDIT POLICY WELL IN HAND. ALTHOUGH PUBLICLY COLOMBO AND CARLI WERE PRESENTING GOVERNMENT PROPOSALS FOR FINANCING SMALL AND MEDIUM INDUSTRIES AND INVESTMENT IN SOUTH AS AN EASING OF

SPECIAL CREDIT, THIS WAS IN FACT NOT THE CASE. BOI HAD NOT EASED UP ON CREDIT IN THE SLIGHTEST AND WHAT WAS BEING PRESENTLY DONE IN CREDIT AREA WAS MERELY RE-ALLOCATION WITHIN EXISTING CEILING. OSSOLA NOTED THAT CREDIT REMAINS BELOW LIMIT AGREED WITH FUND.

5. ON LEARNING THAT SECRETARY SIMON WOULD BE MEETING WITH MINISTER COLOMBO ON JULY 23, OSSOLA EXPRESSED VIEW THAT ITALIAN ATTITUDE WOULD BE ESSENTIALLY SAME AS ADOPTED BY GOVERNOR CARLI IN JUNE MEETING WITH SECRETARY IN WASHINGTON. THAT IS, GOI WOULD NOT BE IN A POSITION TO REQUEST OUTSIDE FINANCIAL ASSISTANCE UNTIL

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EFFECTIVE DOMESTIC STABILIZATION PROGRAM WAS IMPLEMENTED.

6. IN HIS CAPACITY AS CHAIRMAN OF G-10 DEPUTIES OSSOLA HAD ARRANGED FOR MEETING IN LONDON ON JULY 24 WHICH WAS TO BE ATTENDED BY REPRESENTATIVES FROM US, ITALY, FRANCE, GERMANY, UK AND JAPAN. HE APPRECIATED CONFIRMATION THAT UNDER SECRETARY BENNETT WOULD BE IN LONDON ON THAT DATE. VOLPE

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